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Žaluda's sleight of hand

Managers use all kinds of tricks to embellish their company's performance, and it's up to investors, analysts and reporters to see through the mist. A favorite trick is to cite ebitda (earnings before interest, taxes, depreciation and amortization) as the key profit indicator. It's a useful figure, but not so much when it's used to cover up a sharp rise in one of its underlying components. In the case of Czech Railways, it's interest costs that CEO Petr Žaluda apparently tried to mask by issuing full-page ads this week boasting of 48% higher ebitda (and not mentioning pretax or net profit). The key issue at Czech Railways is why the borrowing costs are rising so quickly. And this brings us inevitably back to the dissipation of assets under Žaluda, and the need to borrow money to replace them. It's the friendly deals with Škoda Transportation and others that should dictate whether Žaluda stays or goes, not a glorified profit figure.

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